

# **CITY OF DURHAM, NORTH CAROLINA**

Notes to the Combined Financial Statements  
Year Ended June 30, 2003

## **Note 1 - Summary of Significant Accounting Policies**

The financial statements of the City of Durham have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with GASB Statement #20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the government's accounting policies are described below.

In June 1999, the GASB unanimously approved "Basic Financial Statement and Management Discussion and Analysis" for State and Local Governments (Statement #34). This statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on the size of government) starting with fiscal years ending 2002 (for larger governments). As part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc...). This requirement permits an optional four-year further delay for implementation to the fiscal year ending in 2006. The City has elected to delay implementing the infrastructure-related portion until the end of fiscal year 2006.

### **A. Reporting Entity**

The City of Durham is a municipal corporation governed by an elected mayor and a six-member council. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial operations with the City.

#### **i. Blended Component Units**

The Durham Risk Management Corporation ("DRM"), PO Box 51579, Durham, North Carolina 27717-1579, is a nonprofit corporation duly incorporated in the State, and validly existing and in good standing under the North Carolina Nonprofit Corporation Act, Chapter 55A of the General Statutes of North Carolina. Although legally separate from the City, DRM is reported as if it were part of the primary government because its sole purpose is to assist the City in carrying out its municipal and governmental functions through the provision of risk management and the administration of claims and is not engaged in any other activity and has no taxing power. All DRM activities are included in the Risk Retention Fund, which is an Internal Service Fund.

The New Durham Corporation ("NDC"), 3100 Tower Boulevard, Suite 1200 University Tower, Durham, N.C. 27717, is governed by a five-member board of directors. Although legally separate from the City, the NDC is reported as if it were a part of the primary government because its purpose is to finance City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

## **B. Basis of Presentation**

### **i. Government-wide Statements**

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all the non-fiduciary activities of the primary government and its blended component units. Eliminations have been made to minimize the double counting of internal activities.

These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

### **ii. Fund Financial Statements**

The fund financial statements provide information about the City's funds. There are separate statements for each fund category; governmental, proprietary and fiduciary are presented, even though the latter are excluded from the government wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds. Although only the Water and Sewer, Solid Waste and Transit Funds meet the criteria for major funds, the City has elected to report all enterprise funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

#### **The City reports the following major governmental funds:**

**General Fund** - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

**Housing Projects Fund** - This fund is established to track the City of Durham's affordable housing program. The projects included in this program are designed to assist and finance the rehabilitation of buildings, to assist in acquiring land for redevelopment, principally for the housing of persons of low and moderate income and to assist moderate income first time homeowners with low cost second mortgages.

#### **The City reports the following major enterprise funds:**

**Ballpark Fund** - This fund is established to account for revenues and expenses related to the operation of the Durham Bulls Athletic Park in downtown Durham.

**Civic Center Fund** - This fund is established to account for revenues and expenses related to the operation of the Civic Center in downtown Durham.

**Parking Facilities Fund** - This fund is established to account for revenues and expenses related to the operations of the City's parking lots and garages.

**Storm Water Management Fund** - This fund is established to account for revenues and expenses related to storm water management including developing, monitoring, and inspection protocols and prioritization of drainage and flooding problems to initiate repair.

**Solid Waste Disposal Fund** - This fund is established to account for revenues and expenses related to the operation of the transfer station by the City for the use of residents of the City and Durham County.

**Transit Fund** - This fund is established to account for revenues and expenses related to the operation of the bus system, which serves the City of Durham.

**Water and Sewer Fund** - This fund is established to account for revenues and expenses related to the provision of water and sewer services to the residents of the City and adjacent areas.

**The City reports the following non-major governmental funds:**

**Community Development Fund** - The Community Development Fund is established to account for projects that are financed primarily with Community Development Block Grant funds and Home funds that are used for revitalization of low and moderate income areas.

**HOME Program Grants Fund** - The HOME Programs Grants Fund is established to account for projects financed with HOME Program Grants funds that are to be used for revitalization of low and moderate income areas.

**Employment and Training Grants Fund** - The Employment and Training Grants Fund is established to account for various agreements, related to improving employment opportunities for underemployed and unemployed individuals. The Fund has been used to account for agreements under the Work Force Investment Act and the Job Training Partnership Act between the N. C. Department of Economic and Community Development, the Division of Employment and Training, and the City.

**FEMA Grants Fund** - The FEMA Grants Fund is established to account for activities related to natural disasters to which federal, state and other aid is contributed.

**Public Safety Grants Fund** - The Public Safety Grants Fund is established to account for various agreements to be used exclusively for law enforcement purposes to which federal, state and other aid is contributed.

**Downtown Revitalization Fund** - This fund is established to account for all activities related to specific downtown revitalization projects.

**Other Special revenue Grants Fund** - The Other Grants Fund is established to account for miscellaneous activities for which federal, state and other aid is received.

**Recreation and General Capital Projects Fund** - This Recreation and General Capital Projects Fund is established to track the capital improvements associated with the cultural and recreational endeavors of the City of Durham. The general capital projects component represents projects not otherwise classified below and acts as the fund balance account for past projects that have closed and had funds remaining.

**Street Projects Fund** - The Street Projects Fund is established to track street, thoroughfare and mass transit improvements. Street projects are intended to construct new infrastructure or make significant improvements to the City's roadways and mass transit system.

**Sidewalk Projects Fund** - The Sidewalks Projects Fund is established to track new infrastructure and improvements to the City's sidewalk network.

**General Projects Fund** - The General Capital Projects Fund is established to track the construction, maintenance or expansion of miscellaneous small City facilities and grounds, operating systems and community buildings.

**Municipal Buildings Projects Fund** - The Municipal Projects Fund is established to track the construction, maintenance or expansion of City municipal buildings and facilities including the 911 Center, Fire and Police facilities.

**Eno Greenway Project Fund** - The Eno Greenway Fund is established to track the construction of a 3.8 mile natural-surface trail which will allow urban residents easy off-road access to the natural lands along the Eno River. The Eno Greenway will be part of the Mountains-to-Sea Trail and the Circle the Triangle Trail.

**Impact Fee Fund** - The Impact Fee Fund is established to account for impact fees until they are transferred to other capital projects funds and expended for specific projects.

**Transit Investment Fund** - The Transit Investment Fund is established to account for the moneys held to provide investment earnings to the Transit Fund.

### **C. Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The government-wide financial statements, proprietary funds and pension trust fund are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The accrual basis of accounting is followed, revenues are recognized in these funds when earned, and expenses are recognized when they are incurred. As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for the government wide financial statements, the enterprise fund financial statements and the pension trust fund.

The City follows the modified accrual basis of accounting for all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Principal and interest on general long-term debt are recorded as fund liabilities when due. The City considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual.

The City recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has risen, or when the eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Non-exchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with the prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Those revenues susceptible to accrual are intangibles tax reimbursement and investment income.

Licenses, charges for services and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

#### **D. Budgetary Data**

The General Statutes of North Carolina require that the City adopt an annual balanced budget. The General Statutes also provide for balanced project ordinances for the life of projects, including both capital and grant activities, which are expected to extend beyond the end of the fiscal year.

The City Manager has the authority to transfer budgeted amounts between departments within any category; however, any revisions that alter the total appropriations of any function or fund must be approved by the City Council.

Budgetary control on expenditures and encumbrances is limited to departmental totals and project totals as specified in the budget ordinances.

The City Council officially adopts the annual budget ordinance prior to July 1 of each year and adopts project ordinances as necessary. The Council has the authority to amend such ordinances. The annual budget ordinance is prepared using the modified accrual basis of accounting. The General Fund, Water and Sewer Fund, Parking Facilities Fund, Transit Fund, Solid Waste Disposal Fund, Civic Center Fund, Ballpark Fund, and the Storm Water Fund officially have legally adopted balanced annual budgets.

During the fiscal year, there were 13 amendments for budgeted operating funds totaling \$6,031,586 approved by the City Council as follows:

|                             |                     |
|-----------------------------|---------------------|
| General Fund                | 1,159,059           |
| Water and Sewer Fund        | 1,441,820           |
| Capital Facilities Fee Fund | 887,000             |
| Storm Water Fund            | 26,451              |
| Parking Facilities Fund     | 16,000              |
| Transit Fund                | 992,600             |
| 911 Surcharge Fund          | 516,056             |
| Transit Investment Fund     | 992,600             |
|                             | <u>\$ 6,031,586</u> |

Appropriations, unencumbered and unauthorized for carry forward, lapse at each fiscal year-end. Budgeted amounts in the accompanying statements are as originally adopted, as amended by the City Council, or as changed by approved transfer.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance. Funds to cover outstanding encumbrances are re-appropriated through the budgetary process. Encumbrances do not constitute expenditures or liabilities.

## **E. Assets, Liabilities and Fund Equity**

### **i. Deposits and Investments**

All deposits of the City are made in designated official depositories and are secured as required by State law [G.S. 159-31]. The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and money market accounts, and certificates of deposit. The Local Government Budget and Fiscal Control Act of North Carolina governs all investments permitted to local governments. General Statutes authorize the City to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC registered mutual fund. Pooled cash and investments are maintained and used by all funds. Investments are reported at fair value as determined by quoted market prices. Interest earned is distributed to the various funds based on each fund's proportionate equity in pooled cash and investments.

### **ii. Cash and Cash Equivalents**

Pooled cash and investments are maintained and used by all funds. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The city considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

### **iii. Restricted Assets**

Certain investments are classified as restricted assets on the balance sheet and they are maintained in separate bank accounts. The unexpended proceeds from revenue bonds in the Water and Sewer Utility Fund, the unexpended proceeds from certificates of participation agreements and revenue bonds in the General Fund, and the unexpended proceeds from certificates of participation agreements in the Risk Retention Fund are classified as restricted assets because their use is restricted for the purposes for which the revenue bonds and certificates of participation agreements were originally issued.

#### **iv. Inventories and Prepaid Items**

Inventories held in the Various Funds consist primarily of expendable materials and supplies held for consumption. Inventories are stated using the weighted-average method (which approximates FIFO). Inventory items are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government wide and fund financial statements and expensed as the items are used.

#### **v. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$1,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Major expenditures for capital assets and those repairs, which increase useful lives, are capitalized. Capital outlay for the construction of streets, parks, water and sewer lines and other types of infrastructure expenditures are capitalized as land improvements. Maintenance, repairs and minor renewals are expensed as incurred. There was no interest capitalized during the FY 2003. New public domain and general infrastructure are being capitalized and depreciated. Old infrastructure assets are being reviewed and will be depreciated by the year 2006 in accordance with the implementation schedule in GASB 34.

Capital assets of the City are depreciated using the straight line method over the following useful lives:

| <u>Assets</u>                            | <u>Years</u> |
|--|--------------|
| Public Domain infrastructure and systems | 10-80 years  |
| Enterprise infrastructure and systems    | 50-80 years  |
| Buildings                                | 25-40 years  |
| Furniture, machinery and equipment       | 5-12 years   |
| Computer equipment                       | 3-5 years    |

#### **vi. Deferred/Unearned Income**

In the fund financial statements, ad valorem taxes are not recognized as revenue when they are not considered to be both "measurable and available." Property taxes that are measurable, but not available are initially recorded as deferred income. In addition, property taxes collected in advance of the fiscal year to which they apply are recorded as unearned income. The non-current portion of assessments in the General Fund is recorded as unearned income because the amount is not considered to be available at the end of the fiscal year. Deferred income in the Special Revenue and Capital Projects Funds consist of notes repayments, it is recorded as deferred income because the amount is not considered to be available at the end of the fiscal year.

|   | <u>Deferred Income</u> | <u>Unearned Income</u> |
|---|------------------------|------------------------|
| Taxes, assessments, Business licences and other collected in advance (General Fund) | \$                     | \$ 1,455,063           |
| Taxes (General Fund)  | 2,930,225              |                        |
| Assesments, notes and other (General Fund)  | 2,218,776              |                        |
| Notes receivable (Special Revenue Fund)   | 7,566,096              |                        |
| Notes (Capital Projects Fund)   | 20,140,126             |                        |
| Taxes collected in advance (Civic Center)   |                        | 43,733                 |
|   | \$ <u>32,855,223</u>   | \$ <u>1,498,796</u>    |

### **vii. Long Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **viii. Net Assets/Fund Balances**

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

Fund balances are segregated into the following classifications:

Reserved for Encumbrances - represents commitments for the expenditure of funds under purchase orders and contracts.

Reserved by State Statute - in certain governmental funds, a portion of fund balance is designated "Reserved by State Statute." These amounts represent the portion of fund balances applicable to various assets not yet realized in cash, which are not available for appropriation as defined by the General Statutes of North Carolina.



Reserved for water into trees - represents the amount that is a voluntary donation, it is accumulated when water utility bills are rounded up to the next dollar when paid. These funds must be used for the purchase of trees.

Reserved for employees' pension benefits - represents the amount held in the Law Enforcement Officers' Separation Allowance Fund that is used for pension benefits for qualified law enforcement employees.

Reserved for streets - Powell Bill portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for Perpetual Care - represents the amount of fund balance held to provide investment earnings to offset the cost of cemetery perpetual care.

Undesignated - represents the amount of fund balance which is available for future appropriations.

## **F. Revenues, Expenditures and Expenses**

Substantially all governmental fund revenues are accrued. Property taxes are generally billed and collected within the same period in which the taxes are levied. Expenditures are recognized when the related fund liability is incurred except for the following permitted by generally accepted accounting principles: General obligation long-term debt principal and interest and compensated absences are reported, if any, only when due. Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

### **i. Inter-Fund Transactions**

Inter-fund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditure/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government wide presentation.

### **ii. Property Taxes**

The Durham County Tax Administrator acts as agent for the City in listing, assessing and collecting all taxes related to real and personal property located in the City. Taxes are levied on property assessed at 100% of the estimated actual value as of the year of revaluation. The City's tax rate may not exceed \$1.50 per \$100 assessed valuation for operating purposes without voted approval by the citizens of the City.

The property tax calendar is as follows:

Taxes are listed each January 1.

Liens may be placed on property January 1.

Taxes are levied each July 1, except for ad valorem taxes on certain vehicles

Taxes are due September of each year.

Taxes are considered delinquent after January 5 of the following year.

Penalties are applied to delinquent taxes at a rate of 2% in January and 3/4 of 1% per month for each month thereafter until collected or foreclosure proceedings are consummated. Garnishment and sale of taxable property are procedures used for collecting delinquent taxes. The tax rate for debt service purposes is unlimited provided that the voters have approved the bonds issued or provided that the bonds issued during any year have not exceeded two-thirds of that fiscal year's net debt reduction.

### **iii. Compensated Absences**

The vacation policy of the City provides for carrying forward up to 240 hours earned vacation leave on January 1 of each year with such leave being fully vested when earned. Accrued vacation hours in excess of 240 hours are automatically transferred to accrued sick hours on January 1 of each year. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The City's sick leave policy provides for an unrestricted accumulation of earned sick leave. Upon termination of employment, accumulated sick leave is forfeited. Upon retirement, all of the accumulated sick leave may be used in the determination of length of service for retirement purposes. No obligation to the employer results from such application and therefore, no accrual has been made.

## **Note 2 – Stewardship, Compliance and Accountability**

### **A. Compliance with Finance Related Legal and Contractual Provisions**

The following fund had net asset deficit at June 30, 2003: Solid Waste Disposal Fund \$19,307,553. The following governmental fund had a fund balance deficit at June 30, 2003: FEMA Grants Fund \$1,247.

### **B. Excess of Expenditures over Appropriations in Individual Funds**

For the fiscal year ended June 30, 2003, the expenditures made in the Debt Service function of General Fund exceeded the authorized appropriations by \$15,525,936. This over-expenditure occurred because of a refunding of debt that was not budgeted.

## **Note 3 – Detailed Notes on All Funds**

### **A. Deposits**

All deposits of the City are made in official depositories and are required to be collateralized by State statute (G.S. 159-31). The City may designate as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and Super NOW accounts, money-market accounts and certificates of deposit.

All of the City's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits over the federal depository insurance coverage are collateralized with securities held by the City's agent in the City's name. Under the pooled method, a collateral pool, all unsecured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a Fiduciary capacity for the City, these deposits are considered to be held by the City's agent in the City's name. The amount of the pledged collateral is based on an approved averaging method for non interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooled method must advise the State Treasurer of the adequacy of their pooled collateral covering uninsured deposits.

At year-end, the City's deposits had a carrying amount of \$2,236,630 and a bank balance of \$4,562,675. Of the bank balance, \$588,675 was deposited in a bank using the dedicated method of collateralization.

Of the balance in the bank under the pooling method, \$242,047 is covered by federal depository insurance. The remaining balance of \$3,731,954 is collateralized by securities set aside by the bank that are held by the City's agents.

## **B. Investments**

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or its agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent, but not in the City's name.

|                             | Category              |          |          | Carrying              | Fair                  |
|-----------------------------|-----------------------|----------|----------|-----------------------|-----------------------|
|                             | 1                     | 2        | 3        | Value                 | Value                 |
| Certificates of Deposit     | \$ 200,000            |          |          | \$ 200,000            | \$ 200,000            |
| Commercial Paper            | 39,724,517            | -        | -        | 39,724,517            | 39,724,517            |
| Bonds                       | 66,933,435            | -        | -        | 66,933,435            | 66,933,435            |
| U. S. Government Securities | 14,083,370            | -        | -        | 14,083,370            | 14,144,728            |
| U. S. Government Agencies   | 74,928,260            | -        | -        | 74,928,260            | 75,448,797            |
|                             | <u>\$ 195,869,582</u> | <u>-</u> | <u>-</u> | <u>\$ 195,869,582</u> | <u>\$ 196,451,477</u> |

## **Investments not subject to categorization**

Investments held in pooled

cash or Mutual fund accounts

## **Total investments**

|                       |                       |
|-----------------------|-----------------------|
| 509,223               | 509,223               |
| <u>\$ 196,378,805</u> | <u>\$ 196,960,700</u> |

## **C. Receivables – Allowances for Doubtful Accounts**

Receivables at year end for the city's individual major funds and nonmajor, including the applicable allowances for uncollectable accounts, are as follows:

|                                       | General          | Housing<br>Projects | Water and<br>Sewer | Transit        | Storm Water<br>Fund | Solid Waste<br>Disposal | Nonmajor<br>and Other<br>Funds | Total             |
|---------------------------------------|------------------|---------------------|--------------------|----------------|---------------------|-------------------------|--------------------------------|-------------------|
| Receivables:                          |                  |                     |                    |                |                     |                         |                                |                   |
| Taxes                                 | 3,465,568        | -                   | -                  | -              | -                   | -                       | 43,733                         | 3,509,301         |
| Accounts                              | 2,030,932        | -                   | 9,546,460          | -              | 1,376,204           | 487,410                 | 211,752                        | 13,652,758        |
| Special assessments                   | 565,503          | -                   | 2,155,313          | -              | 4,723               | -                       | -                              | 2,725,539         |
| Interest                              | 129,822          | 10,582              | 291,031            | 7,245          | 18,488              | 9,855                   | 295,873                        | 762,896           |
| Notes                                 | 462,041          | 19,886,417          | 765,762            | -              | -                   | -                       | 8,907,768                      | 30,021,988        |
| Intergovernmental                     | 1,171,731        | 2                   | 233,858            | 588,327        | 8,488               | 2,522                   | 13,274,364                     | 15,279,292        |
| Gross receivables                     | 7,825,597        | 19,897,001          | 12,992,424         | 595,572        | 1,407,903           | 499,787                 | 22,733,490                     | 65,951,774        |
| Less: allowance for<br>uncollectables | (547,321)        | (533,385)           | (1,651,150)        | -              | (69,229)            | (1,827)                 | (1,024,274)                    | (3,827,186)       |
| Net total receivables                 | <u>7,278,276</u> | <u>19,363,616</u>   | <u>11,341,274</u>  | <u>595,572</u> | <u>1,338,674</u>    | <u>497,960</u>          | <u>21,709,216</u>              | <u>62,124,588</u> |

Notes receivable represent loans made by the City for housing, redevelopment or improvements to blighted areas of the City. These notes receivable have varying interest rates and payment terms, with stated interest rates ranging from 0 to 8.75 percent and scheduled repayment dates through 2033. Some notes are payable in equal installments while others have balloon payments.

The City had the following notes receivable that were in default at June 30, 2003:  
 South East Durham Development Corp. \$858,311

#### D. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

|   | Beginning<br>Balances | Additions            | Disposals/<br>Adjustments/<br>Transfers | Ending<br>Balances    |
|---|-----------------------|----------------------|---|-----------------------|
| Governmental activities:                    |                       |                      |   |                       |
| Capital assets not being depreciated:       |                       |                      |   |                       |
| Land  | \$ 22,353,098         | \$ 2,358,299         | \$ (541,451)                            | \$ 24,169,946         |
| Construction in progress                    | 14,778,668            | 1,678,497            | (234,987)                               | 16,222,178            |
| Total capital assets not being depreciated  | <u>37,131,766</u>     | <u>4,036,796</u>     | <u>(776,438)</u>                        | <u>40,392,124</u>     |
| Capital assets being depreciated:           |                       |                      |   |                       |
| Buildings                                   | 68,624,785            | 321,103              | -                                       | 68,945,888            |
| Infrastructure                              | 39,723,496            | 19,653,406           | -                                       | 59,376,902            |
| Furniture and office equipment              | 7,216,385             | 607,165              | (176,003)                               | 7,647,547             |
| Machinery and equipment                     | 46,020,032            | 3,589,102            | (1,989,034)                             | 47,620,100            |
| Total capital assets being depreciated      | <u>161,584,698</u>    | <u>24,170,776</u>    | <u>(2,165,037)</u>                      | <u>183,590,437</u>    |
| Less accumulated depreciation for:          |                       |                      |   |                       |
| Buildings                                   | (16,859,050)          | (1,811,113)          | -                                       | (18,670,163)          |
| Infrastructure                              | (376,939)             | (887,982)            | -                                       | (1,264,921)           |
| Furniture and office equipment              | (5,578,330)           | (937,857)            | 176,004                                 | (6,340,183)           |
| Machinery and equipment                     | (29,009,422)          | (5,094,854)          | 1,862,564                               | (32,241,712)          |
| Total accumulated depreciation              | <u>(51,823,741)</u>   | <u>(8,731,806)</u>   | <u>* 2,038,568</u>                      | <u>(58,516,979)</u>   |
| Total capital assets being depreciated, net | <u>109,760,957</u>    | <u>15,438,970</u>    | <u>(126,469)</u>                        | <u>125,073,458</u>    |
| Governmental activity capital assets, net   | <u>\$ 146,892,723</u> | <u>\$ 19,475,766</u> | <u>\$ (902,907)</u>                     | <u>\$ 165,465,582</u> |

\* Depreciation expense was charged to functions as follows:

Governmental Activities:

|                      |                     |
|----------------------|---------------------|
| General Government   | \$ 573,572          |
| Public Protection    | 4,253,810           |
| Development          | 34,228              |
| General Services     | 1,806,071           |
| Recreation           | 801,197             |
| Streets and Highways | 1,262,928           |
|                      | <u>\$ 8,731,806</u> |

|  | Beginning<br>Balances | Additions           | Disposals/<br>Adjustments/<br>Transfers | Ending<br>Balances    |
|--|-----------------------|---------------------|---|-----------------------|
| Business-type activities:                    |                       |                     |   |                       |
| Capital assets not being depreciated:        |                       |                     |   |                       |
| Land   | \$ 36,023,771         | \$ 648              | \$ -                                    | \$ 36,024,419         |
| Construction in progress                     | 15,242,149            | 1,583,281           | (271,536)                               | 16,553,894            |
| Total Capital assets not being depreciated   | 51,265,920            | 1,583,929           | (271,536)                               | 52,578,313            |
| Capital assets being depreciated:            |                       |                     |   | -                     |
| Infrastructure                               | 216,448,054           | 4,217,796           | (32,412)                                | 220,633,438           |
| Buildings                                    | 206,484,334           | 9,883               | (3,831,410)                             | 202,662,807           |
| Furniture and office equipment               | 4,394,657             | 69,191              | (68,482)                                | 4,395,366             |
| Machinery and equipment                      | 23,664,644            | 11,370,153          | (336,830)                               | 34,697,967            |
| Total capital assets being depreciated       | 450,991,689           | 15,667,023          | (4,269,134)                             | 462,389,578           |
| Less accumulated depreciation for:           |                       |                     |   |                       |
| Infrastructure                               | (108,038,752)         | (3,171,253)         | -                                       | (111,210,005)         |
| Buildings                                    | (90,955,041)          | (4,737,979)         | 1,691,123                               | (94,001,897)          |
| Furniture and office equipment               | (3,547,182)           | (72,894)            | 68,279                                  | (3,551,797)           |
| Machinery and equipment                      | (16,492,958)          | (2,180,261)         | 448,186                                 | (18,225,033)          |
| Total accumulated depreciation               | (219,033,933)         | (10,162,387) *      | 2,207,588                               | (226,988,732)         |
| Total capital assets being depreciated, net  | 231,957,756           | 5,504,636           | (2,061,546)                             | 235,400,846           |
| Business-type activities capital assets, net | <u>\$ 283,223,676</u> | <u>\$ 7,088,565</u> | <u>\$ (2,333,082)</u>                   | <u>\$ 287,979,159</u> |

\* Depreciation expense was charged to functions as follows:

Business-type activities:

|                                  |                      |
|----------------------------------|----------------------|
| Water/Sewer distribution systems | \$ 6,916,521         |
| Parking facilities               | 302,863              |
| Stormwater                       | 337,626              |
| Civic Center operations          | 291,445              |
| Ballpark operations              | 377,460              |
| Landfield operations             | 920,381              |
| Transit                          | 1,016,091            |
|                                  | <u>\$ 10,162,387</u> |

### Construction and Service Contracts

At June 30, 2003, the City has commitments outstanding for construction of capital projects totaling approximately \$20,351,269. The City also has commitments outstanding for service contracts totaling approximately \$7,576,373.

## E. Interfund Receivables, Payables and Transfers

### i. The composition of interfund balance at June 30, 2003, are as follows:

#### Due to Other Funds

| Receivable Fund                         | Payable Fund                      | Amount              |
|---|-----------------------------------|---------------------|
| <u>Governmental Activities:</u>         |                                   |                     |
| Employment and Training Grants          | Community Development Block Grant | \$ 50,280           |
| Employment and Training Grants          | Home Program                      | 35,524              |
| Public Safety Grants                    | Community Development Block Grant | 582,726             |
| Other Special Revenue Grants            | Home Program                      | 81,998              |
| Recreation and General Capital Projects | Street Projects                   | 12,477              |
| Recreation and General Capital Projects | Municipal Building Projects       | 147,402             |
| Housing Projects                        | Street Projects                   | 1,551,276           |
|   |                                   | <u>2,461,683</u>    |
| <u>Business Type Activities:</u>        |                                   |                     |
| Water and Sewer Utility                 | FEMA Grants                       | 3,236,444           |
| Water and Sewer Utility                 | Ballpark                          | 363,349             |
|   |                                   | <u>3,599,793</u>    |
|   | Total Due to Other Funds          | <u>\$ 6,061,476</u> |

#### Advance to Other Funds

| Receivable Fund         | Payable Fund | Amount              |
|-------------------------|--------------|---------------------|
| Transit Investment      | Ballpark     | \$ 267,369          |
| Transit Investment      | General      | 267,369             |
| Water and Sewer Utility | Ballpark     | 3,235,036           |
|                         |              | <u>\$ 3,769,774</u> |

Due to other fund balances are over night loans at fiscal year end from the receivable fund to the payable fund to cover cash deficits in the payable fund. The amounts are reversed on the first day of the next fiscal year. The fund with the cash deficit then has a liability to the pooled cash and investments.

Advance to other fund balances are for loans that that were made by the receivable to the payable fund for capital improvements in the payable fund.

### ii. Transfers To Other Funds

The following is a schedule of interfund transfers for the year ended June 30, 2003:

|                           | Transfers Out       |                       |                      |                      |                   | Total                |
|---------------------------|---------------------|-----------------------|----------------------|----------------------|-------------------|----------------------|
|                           | General Fund        | Housing Projects Fund | Nonmajor Funds       | Water and Sewer Fund | Storm Water Fund  |                      |
| <b>Transfer in:</b>       |                     |                       |                      |                      |                   |                      |
| General fund              | \$ -                | \$ -                  | \$ 1,354,709         | \$ -                 | \$ -              | \$ 1,354,709         |
| Nonmajor funds            | 1,794,970           | 34,856                | 1,549,266            | 1,779,840            | -                 | 5,158,932            |
| Water and Sewer fund      | -                   | -                     | -                    | -                    | 566,991           | 566,991              |
| Parking facilities fund   | 690,476             | -                     | -                    | -                    | -                 | 690,476              |
| Transit fund              | 1,528,307           | -                     | 7,277,255            | -                    | -                 | 8,805,562            |
| Solid waste disposal fund | 2,978,018           | -                     | -                    | -                    | -                 | 2,978,018            |
| Civic center fund         | 446                 | -                     | -                    | -                    | -                 | 446                  |
| Ballpark fund             | 1,833,749           | -                     | -                    | -                    | -                 | 1,833,749            |
| Internal service fund     | -                   | -                     | -                    | 201,550              | 14,339            | 215,889              |
| Total transfers out       | <u>\$ 8,825,966</u> | <u>\$ 34,856</u>      | <u>\$ 10,181,230</u> | <u>\$ 1,981,390</u>  | <u>\$ 581,330</u> | <u>\$ 21,604,772</u> |

Transfer in of general capital assets:

|  |       |
|--|-------|
| From water and sewer fund to existing general capital assets | 2,793 |
| To storm water fund from existing general capital assets     | 3,145 |

Total transfers in \$ 21,610,710

Transfers out of the General Fund for the most part are to cover debt services payments in the fund receiving the transfer. General Fund transfers to the Nonmajor Funds are for grant and capital related items.

Transfers out of the Nonmajor Funds (Transit Investment Fund) to the Transit Fund are to support debt service, operations and capital items.

Transfers out of the Nonmajor Funds to the General Fund are related to prior financing of the General Fund for projects in the Nonmajor Funds.

Transfers out of the Water and Sewer Fund to the Nonmajor Funds were to fund the Downton Revitalization Fund.

Transfers out of the Stormwater Fund to the Water and Sewer Fund are to reimburse for lab work and some administrative costs.

## F. Leases

### i. Operating Leases

The City leases building and office facilities under noncancelable operating leases. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003 were as follows:

| Ending June 30, |                   |
|-----------------|-------------------|
| 2004            | 154,585           |
| 2005            | 113,690           |
| 2006            | 82,690            |
| Total           | <u>\$ 350,965</u> |

Operating lease amounts paid in 2003 were \$153,248

## ii. Capital Leases

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Obligations for these leases are accounted for in the governmental activities of the government wide statements. The original value of capitalized leases recorded in the governmental activities, capital assets of the government wide statements was \$359,602 accumulated depreciation at June 30, 2003 is \$323,642 leaving a recorded value of \$35,960. The future minimum lease payments remaining were as follows:

|                 |           |
|-----------------|-----------|
| Fiscal Year     |           |
| Ending June 30, |           |
| 2004            | 50,265    |
|                 | (453)     |
| Less interest   |           |
| Total           | \$ 49,812 |

## G. Long Term Obligations

### General Obligation Bonds

The City issues general obligation bonds to provide for the acquisition and construction of major equipment and capital facilities. These debt obligations are backed by the full faith, credit and taxing power of the City. However, the principal and interest requirements of the Water and Sewer Utility Fund, the Parking Facilities Fund, Solid Waste Disposal Fund, the Transit Fund and the Civic Center Fund are intended to be repaid from the revenues of those funds.

General obligation bonds outstanding at June 30, 2003:

|                                     | Issue Date | Due<br>Serially<br>To | Interest Rate | Original<br>Issue | Balance<br>June 30, 2003 |
|-------------------------------------|------------|-----------------------|---------------|-------------------|--------------------------|
| Public Improvements 1993 - Series A | 3/1/1993   | 2008                  | 4.70 - 5.20   | 23,700,000        | 10,950,000               |
| Public Improvements 1993 - Series B | 3/18/1993  | 2014                  | Variable      | 15,365,000        | 15,365,000               |
| Public Improvements 1994            | 2/1/1994   | 2014                  | 4.70 - 4.90   | 29,680,000        | 20,680,000               |
| Public Improvements 1996            | 2/1/1996   | 2016                  | 4.60 - 5.10   | 15,225,000        | 13,300,000               |
| Housing Bonds 1996                  | 4/10/1996  | 2008                  | 6.50 - 6.50   | 7,100,000         | 3,825,000                |
| Public Improvements 1997            | 2/1/1997   | 2016                  | 5.00 - 5.40   | 7,190,000         | 5,240,000                |
| Public Improvements 1998            | 3/1/1998   | 2017                  | 4.50 - 4.70   | 18,550,000        | 13,800,000               |
| Public Improvements 1999            | 4/1/1999   | 2019                  | 4.25 - 5.00   | 29,255,000        | 25,255,000               |
| Public Improvements 2000 - Series A | 3/1/2000   | 2019                  | 5.25 - 5.50   | 15,185,000        | 12,935,000               |
| Public Improvements 2000 - Series B | 9/1/2000   | 2021                  | 4.80 - 5.10   | 16,910,000        | 15,310,000               |
| Housing Bonds 2000                  | 10/26/2000 | 2018                  | Variable      | 8,000,000         | 7,500,000                |
| Public Improvements 2002            | 6/1/2002   | 2022                  | 4.00 - 5.00   | 25,910,000        | 24,910,000               |
| Refunding Series 2003               | 6/1/2003   | 2023                  | 5.00 - 6.00   | 45,490,000        | 45,490,000               |
|                                     |            |                       |               | \$ 257,560,000    | \$ 214,560,000           |

The bonds are recorded as follows:

|   |                |
|---|----------------|
| Governmental Activities   | \$ 96,486,977  |
| Business-type Activities ( Water & Sewer, Solid Waste, Transit, Civic Center Funds) | 118,073,023    |
| TOTAL   | \$ 214,560,000 |



The City is subject to the Local Government Bond Act of North Carolina that limits the net bonded debt the City may have outstanding to eight percent of the appraised value of property subject to taxation. At June 30, 2003 such statutory limit for the City was \$1,148,659,985 providing a debt margin of approximately \$849,918,506.

### Refunding

On June 3, 2003 the City of Durham issued General Obligation Refunding Bonds, Series 2003 dated June 1, 2003 in the amount of \$45,490,000. The bonds refunded the following issues; the 1992 Public Improvement Bonds, the 1992 Refunding Series, the 1993 Refunding Series, and the 1995 Public Improvement Bonds.

The following schedule shows annual requirements to amortize all general obligation bonds debt outstanding as of June 30, 2003. Interest on variable rate bonds has been estimated using the rate in effect at June 30, 2003.

| Fiscal Year | <u>Governmental Activities</u> |              |                      | <u>Business-Type Activities</u> |                      |
|-------------|--------------------------------|--------------|----------------------|---------------------------------|----------------------|
|             | Principal                      | Amortization | Interest             | Principal                       | Interest             |
| 2004        | \$ 6,466,457                   | \$ -         | \$ 4,674,801         | \$ 8,653,543                    | \$ 5,409,546         |
| 2005        | 6,666,953                      | -            | 4,633,331            | 9,043,047                       | 5,442,039            |
| 2006        | 6,623,576                      | -            | 4,269,969            | 9,046,424                       | 4,960,166            |
| 2007        | 6,509,778                      | -            | 3,933,948            | 8,240,222                       | 4,517,917            |
| 2008        | 6,570,016                      | -            | 3,596,486            | 8,994,984                       | 4,114,034            |
| 2009-2013   | 27,965,471                     | -            | 13,417,108           | 49,309,529                      | 13,429,272           |
| 2014-2018   | 24,081,509                     | -            | 6,595,586            | 21,613,491                      | 3,487,899            |
| 2019-2023   | 11,603,216                     | -            | 1,402,711            | 3,171,784                       | 230,089              |
| Total       | <u>\$ 96,486,976</u>           | <u>\$ -</u>  | <u>\$ 42,523,940</u> | <u>\$ 118,073,024</u>           | <u>\$ 41,590,962</u> |

As of June 30, 2002, \$26,772,000 general obligation bonds were authorized but unissued.

### Mortgage Revenue Bonds

The City is also a party to urban redevelopment revenue bonds that were used to fund the acquisition and rehabilitation of the former Durham Hosiery Mill. These bonds were issued on March 1, 1987 for an amount totaling \$5,715,000 with an interest rate of 7.50%. Debt service requirements are met through rental income from Durham Hosiery Mill. Future requirements to pay principal and interest for the governmental activity at June 30, 2003, are as follows:

| <u>Fiscal year ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>      | <u>Total</u>         |
|------------------------------------|---------------------|----------------------|----------------------|
| 2004                               | \$ -                | \$ 390,750           | \$ 390,750           |
| 2005                               | -                   | 390,750              | 390,750              |
| 2006                               | -                   | 390,750              | 390,750              |
| 2007                               | -                   | 390,750              | 390,750              |
| 2008                               | -                   | 390,750              | 390,750              |
| 2009-2030                          | 5,080,000           | 8,596,500            | 13,676,500           |
|                                    | <u>\$ 5,080,000</u> | <u>\$ 10,550,250</u> | <u>\$ 15,630,250</u> |

The mortgage revenue bonds are secured by the property financed and are limited obligations of the City payable solely from rental income received from Durham Hosiery Mill and do not constitute general obligation debt or liability of the City.

In fiscal year 1997-98, the City was a party to a \$5,000,000 issue in Multifamily Housing Revenue Bonds. Proceeds from this sale were loaned to The Ivy Commons Limited Partnership to assist the company with the purchase, rehabilitation, and equipping of a 231 unit multifamily residential housing project. The proceeds will also fund a debt service reserve fund. The mortgage revenue bonds are secured by the property financed and payable solely from rental income received from the project. The bonds are limited obligations of the City and do not constitute general obligation debt or a liability of the City.

### Certificates of Participation

The City has contracts payable to New Durham Corporation with terms of twenty years and interest and principal payments due annually. The City also has contracts payable to Durham Risk Management Corporation with interest payments monthly and principal payment annually.

Certificates of Participation outstanding as of June 30, 2003:

|                                 | Issue Date | Due<br>Serially<br>To | Interest<br>Rate | Original<br>Issue    | Balance<br>June 30, 2003 |
|---------------------------------|------------|-----------------------|------------------|----------------------|--------------------------|
| Risk Management 1993 - Series A | 1/6/1993   | 2009                  | Variable         | 20,800,000           | 5,000,000                |
| Risk Management 1993 - Series B | 1/6/1993   | 2004                  | Variable         | 10,300,000           | 10,300,000               |
| Multi-purpose 1995              | 7/15/1995  | 2015                  | 4.00 - 5.80      | 12,525,000           | 4,885,000                |
| Refunding 1996 - Series A       | 12/15/1996 | 2010                  | 3.75 - 5.25      | 3,255,000            | 2,110,000                |
| Refunding 1996 - Series B       | 12/15/1996 | 2010                  | 3.75 - 5.25      | 4,415,000            | 3,875,000                |
| Multi-purpose 1997              | 6/1/1997   | 2017                  | 4.50 - 6.75      | 7,465,000            | 5,315,000                |
| Refunding 1998 - Series A       | 10/15/1998 | 2010                  | 3.00 - 4.60      | 8,030,000            | 7,650,000                |
| Multi-purpose 2001 - Series A   | 7/15/2001  | 2021                  | 3.40 - 5.25      | 15,660,000           | 13,630,000               |
| Refunding 2001 - Series A       | 7/15/2001  | 2011                  | 5.40 - 6.88      | 8,000,000            | 6,535,000                |
|                                 |            |                       |                  | <u>\$ 90,450,000</u> | <u>\$ 59,300,000</u>     |

The COPs are recorded as follows:

|  |                   |
|--|-------------------|
| Governmental Activities  | 45,115,000        |
| Business-type Activities (Ballpark and Parking facilities Funds) | 14,185,000        |
| Total  | <u>59,300,000</u> |

Future requirements to pay principal and interest on the contracts at June 30, 2003, are as follows:

| Fiscal Year | Governmental Activities |                      | Business-Type Activities |                     |
|-------------|-------------------------|----------------------|--------------------------|---------------------|
|             | Principal               | Interest             | Principal                | Interest            |
| 2004        | \$ 14,770,000           | \$ 1,769,133         | \$ 1,350,000             | \$ 607,335          |
| 2005        | 4,585,000               | 1,589,252            | 1,390,000                | 558,143             |
| 2006        | 3,065,000               | 1,396,855            | 1,440,000                | 505,375             |
| 2007        | 3,105,000               | 1,255,233            | 2,290,000                | 422,890             |
| 2008        | 3,155,000               | 1,284,699            | 2,380,000                | 319,628             |
| 2009-2013   | 9,025,000               | 3,647,860            | 5,335,000                | 457,995             |
| 2014-2018   | 5,505,000               | 1,264,291            | -                        | -                   |
| 2019-2023   | 1,905,000               | 193,675              | -                        | -                   |
| Total       | <u>\$ 45,115,000</u>    | <u>\$ 12,400,997</u> | <u>\$ 14,185,000</u>     | <u>\$ 2,871,365</u> |

## Revenue Bonds

Over the last eight years, the City issued \$54,595,000 in revenue bonds to fund certain capital improvements in the Water and Sewer Fund. These obligations are not backed by the full faith and credit of the City, but only by net revenues, as defined, of the Water and Sewer Fund. The City is required to make monthly deposits with the trustee to cover annual debt service requirements.

Certain financial covenants are contained in the bond order. The most restrictive of these are the debt service coverage ratios, as defined. The first is that net revenues, as defined, must exceed 125% of the debt service requirements for all parity indebtedness, as defined. The other ratio is that net revenues less parity debt service expenditures must exceed 100% of all debt service requirements. During the fiscal year, it became evident that the City would fall below the required debt ratios at year end. Accordingly the City hired a consultant to recommend rates that would provide adequate projected revenue to meet the required debt ratios. The City Council approved the recommend rate structure June 16, 2003.

|                      | Issue Date | Due<br>Serially<br>To | Interest Rate | Original<br>Issue    | Balance<br>June 30, 2003 |
|----------------------|------------|-----------------------|---------------|----------------------|--------------------------|
| Series 1994          | 12/15/1994 | 2016                  | 4.75 - 5.90   | \$ 5,330,000         | \$ 1,315,000             |
| Series 1994 Variable | 12/15/1994 | 2016                  | Variable      | 10,500,000           | 10,500,000               |
| Series 1998          | 6/15/1998  | 2018                  | 4.50 - 5.00   | 16,765,000           | 13,880,000               |
| Series 2001          | 7/15/2001  | 2021                  | 2.75 - 5.25   | 22,000,000           | 20,625,000               |
|                      |            |                       |               | <u>\$ 54,595,000</u> | <u>\$ 46,320,000</u>     |

Future requirements to pay principal and interest on the water and sewer revenue bonds liabilities at June 30, 2003, are as follows:

| Fiscal year<br>ending June 30, | Principal            | Interest             | Total                |
|--------------------------------|----------------------|----------------------|----------------------|
| 2004                           | \$ 2,085,000         | 2,319,250            | 4,404,250            |
| 2005                           | 2,175,000            | 2,223,728            | 4,398,728            |
| 2006                           | 2,260,000            | 2,121,915            | 4,381,915            |
| 2007                           | 2,325,000            | 2,015,715            | 4,340,715            |
| 2008                           | 2,490,000            | 1,902,273            | 4,392,273            |
| 2009-2013                      | 14,365,000           | 7,519,081            | 21,884,081           |
| 2014-2018                      | 15,865,000           | 3,437,385            | 19,302,385           |
| 2019-2021                      | 4,755,000            | 483                  | 4,755,483            |
|                                | <u>\$ 46,320,000</u> | <u>\$ 21,539,830</u> | <u>\$ 67,859,830</u> |

## Durham County Notes

Notes payable to Durham County (the "County") consist of a series of 20 year notes with final maturity dates ranging from 2010 to 2016. The notes were given to the County in exchange for certain water and sewer assets transferred to the City. The notes bear interest at 5.54 percent. Principal payments for each note are due based on the collections of certain assessments, frontage fees and water and sewer charges

received by the City, which are attributable to the related project. Given the uncertainty of the timing of these future collections, annual maturities for these notes are not determinable.

#### **North Carolina Department of Transportation**

The City has various right-of-way and construction notes payable to the North Carolina Department of Transportation. A liability of \$59,249 for substantially completed projects is included in the governmental activities, and a liability of \$675,227 is included in the business-type activities.

#### **State of North Carolina**

The City has drawn down \$15,000,000 from the State of North Carolina to fund the North Durham Water Reclamation Facility upgrade and expansion project. Interest will accrue at 3.70% per annum on the unpaid principal. Future requirements to pay principal and interest to the State of North Carolina at June 30, 2003 follow:

| Fiscal year<br>ending June 30, | Principal           | Interest            | Total                |
|--------------------------------|---------------------|---------------------|----------------------|
| 2004                           | \$ 750,000          | \$ 305,250          | \$ 1,055,250         |
| 2005                           | 750,000             | 277,500             | 1,027,500            |
| 2006                           | 750,000             | 249,750             | 999,750              |
| 2007                           | 750,000             | 222,000             | 972,000              |
| 2008                           | 750,000             | 194,250             | 944,250              |
| 2009-2013                      | 3,750,000           | 555,000             | 4,305,000            |
| 2014                           | 750,000             | 27,750              | 777,750              |
|                                | <u>\$ 8,250,000</u> | <u>\$ 1,831,500</u> | <u>\$ 10,081,500</u> |

The City has a line of credit that has been drawn on during Fiscal Year 2003, it is a twenty year promissory note from the North Carolina Drinking Water State Revolving Fund in the principal amount of \$2,700,000 at a rate of 2.87% per annum to provide funds to pay a part of the cost of a water project. Future requirements to pay principal and interest to the State of North Carolina follow:

| Fiscal year<br>ending June 30, | Principal           | Interest          | Total               |
|--------------------------------|---------------------|-------------------|---------------------|
| 2004                           | \$ 135,000          | \$ 73,616         | \$ 208,616          |
| 2005                           | 135,000             | 69,741            | 204,741             |
| 2006                           | 135,000             | 65,867            | 200,867             |
| 2007                           | 135,000             | 61,992            | 196,992             |
| 2008                           | 135,000             | 58,118            | 193,118             |
| 2009-2013                      | 675,000             | 232,471           | 907,471             |
| 2014-2018                      | 675,000             | 135,609           | 810,609             |
| 2019-2022                      | 540,000             | 38,746            | 578,746             |
|                                | <u>\$ 2,565,000</u> | <u>\$ 736,160</u> | <u>\$ 3,301,160</u> |

#### **Changes in Long Term Obligations**

The following is a summary of changes in long term obligations during the year ended June 30, 2003:

|   | Principal<br>Outstanding<br>June 30,2002 | Additions            | Retirements            | Principal<br>Outstanding<br>June 30, 2003 | Due within<br>One Year |
|---|--|----------------------|------------------------|---|------------------------|
| <b>Governmental activities</b>                                  |  |                      |                        |   |                        |
| Bonds Payable   |  |                      |                        |   |                        |
| General obligation bonds  | \$ 103,331,160                           | \$ 17,609,179        | \$ (24,453,363)        | \$ 96,486,976                             | \$ 6,466,457           |
| Mortgage Revenue bonds  | 5,080,000                                | -                    | -                      | 5,080,000                                 | 65,000                 |
| Less deferred amounts   | <u>(2,050)</u>                           | <u>573,125</u>       | <u>2,050</u>           | <u>573,125</u>                            | <u>112,575</u>         |
| Total bonds payable   | 108,409,110                              | 18,182,304           | (24,451,313)           | 102,140,101                               | 6,644,032              |
| <b>Governmental activities</b>                                  |  |                      |                        |   |                        |
| Certificates of participation                                   |  |                      |                        |   |                        |
| Contracts payable   | 53,275,000                               | -                    | (8,160,000)            | 45,115,000                                | 13,770,000             |
| Less deferred amounts   | <u>12,356</u>                            | <u>-</u>             | <u>(3,091)</u>         | <u>9,265</u>                              | <u>3,091</u>           |
| Total certificates of participation                             | 53,287,356                               | -                    | (8,163,091)            | 45,124,265                                | 13,773,091             |
| Capital Leases  | 258,015                                  | -                    | 208,203                | 49,812                                    | 49,812                 |
| Accrued compensated absences                                    | 6,879,679                                | 4,368,150            | 4,032,511              | 7,215,318                                 | 4,035,000              |
| Notes payable to N. C.<br>Department of Transportation          | <u>59,249</u>                            | <u>-</u>             | <u>-</u>               | <u>59,249</u>                             | <u>59,249</u>          |
| <b>Total governmental activities</b>                            | <u>\$ 168,893,409</u>                    | <u>\$ 22,550,454</u> | <u>\$ (28,373,690)</u> | <u>\$ 154,588,745</u>                     | <u>\$ 24,561,184</u>   |
| <b>Business-type activities</b>                                 |  |                      |                        |   |                        |
| Bonds Payable   |  |                      |                        |   |                        |
| General obligation bonds  | \$ 127,908,843                           | \$ 27,880,821        | \$ (37,716,640)        | \$ 118,073,024                            | \$ 9,673,168           |
| Revenue bonds   | 48,310,000                               | -                    | (1,990,000)            | 46,320,000                                | 885,000                |
| Less deferred amounts   | <u>-</u>                                 | <u>901,875</u>       | <u>-</u>               | <u>901,875</u>                            | <u>180,375</u>         |
| Total bonds payable   | 176,218,843                              | 28,782,696           | (39,706,640)           | 165,294,899                               | 10,738,543             |
| Certificates of participation                                   |  |                      |                        |   |                        |
| Contracts payable   | 15,475,000                               | -                    | (1,290,000)            | 14,185,000                                | 1,350,000              |
| Less deferred amounts   | <u>(620,456)</u>                         | <u>-</u>             | <u>100,522</u>         | <u>(519,935)</u>                          | <u>(87,510)</u>        |
| Total certificates of participation                             | 14,854,544                               | -                    | (1,189,478)            | 13,665,065                                | 1,262,490              |
| Accrued compensated absences                                    | 1,004,596                                | 802,043              | 764,951                | 1,041,688                                 | 775,000                |
| Notes payable to North Carolina<br>Department of Transportation | <u>675,227</u>                           | <u>-</u>             | <u>-</u>               | <u>675,227</u>                            | <u>675,227</u>         |
| Notes payable to State of<br>North Carolina                     | <u>11,700,000</u>                        | <u>-</u>             | <u>(885,000)</u>       | <u>10,815,000</u>                         | <u>885,000</u>         |
| Notes payable to Durham County                                  | <u>32,139,493</u>                        | <u>-</u>             | <u>(60,996)</u>        | <u>32,078,497</u>                         | <u>604,004</u>         |
| <b>Total Business-type activities</b>                           | <u>\$ 236,592,703</u>                    | <u>\$ 29,584,739</u> | <u>\$ (41,077,163)</u> | <u>\$ 223,570,376</u>                     | <u>\$ 14,940,264</u>   |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Approximately 95% of compensated absences liquidated in the governmental activities are in the general fund.

#### Note 4 - Other

##### A. Risk Management

The City is exposed to various risks of loss related to workers' compensation, property, general and automobile. The City's internal Risk Fund provides funds for losses retained by the City, including

claims paid to others and deductible amounts on otherwise insured losses. Annually, as of June 30, the program has a third party actuary review the claim history for all claim years for which open claims are outstanding. The actuary projects the ultimate claim payment obligation (including the incurred but not reported claims) for each year's claim experience and projects the new year's probable loss fund cost.

The City maintains the following deductibles or self insured retentions on insurance policies: \$350,000 per occurrence for vehicle and general liability, public official and law enforcement liability and workers compensation, \$100,000 per loss for commercial property (\$5,000 on the Civic Center), \$25,000 per loss on boiler and machinery, \$2,500 per loss on money and securities, \$500 per loss on flood at West Point Mill and \$2,500 per loss on employee blanket bond (\$1,000 for peace officers) and individual public official bonds. The amounts paid are based on historical cost information and actuarial estimates of the amounts needed to pay prior and current year claims and to have a reserve amount available to fund catastrophic losses.

The pending claims liability of \$7,064,767 reported in the fund at June 30, 2003 is based on the requirements of Governmental Accounting Standards Board Statement Number 10, which required that a liability for claims be reported if information prior to the issuance of the basic financial statements indicate that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability follow:

|      | Beginning<br>of Year | Claims, Fees<br>and Changes<br>in Estimates | Payments     | End<br>of Year |
|------|----------------------|---|--------------|----------------|
| 2001 | \$ 6,873,000         | \$ 3,402,955                                | \$ 3,379,997 | \$ 6,895,958   |
| 2002 | 6,895,958            | 1,696,873                                   | 2,420,831    | 6,172,000      |
| 2003 | 6,172,000            | 4,944,126                                   | 4,051,359    | 7,064,767      |

The City is self-insured for mental health and dental coverage for the majority of the City employees. The outstanding liability is for current claims and is recorded in the General Fund. Changes in the liability follow:

|      | Beginning<br>of Year | and Changes<br>in Estimates | Payments     | End<br>of Year |
|------|----------------------|-----------------------------|--------------|----------------|
| 2001 | \$ 152,105           | \$ 1,184,609                | \$ 1,150,612 | \$ 186,102     |
| 2002 | 186,102              | 1,086,775                   | 1,071,436    | 201,441        |
| 2003 | 201,441              | 1,019,052                   | 1,028,379    | 192,114        |

## **B. Subsequent Events**

### **Certificates of Participation Issuance**

On August 27, 2003 the City of Durham issued Certificates of Participation, (COPS) Series 2003 dated August 27, 2003 in the amount of \$14,000,000. The COPS are being issued to the provisions of The Local Government Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, orders duly adopted by the City Council of the City, and resolution duly passed by the City Council. The COPS are being issued to provide funds that will be used by the City to pay the costs of, acquisition, construction and equipping of a multi level parking facility.

## **C. Jointly Governed Organization**

### **i. Research Triangle Regional Public Transportation Authority**

The City, in conjunction with other area local governments, is a member of the Research Triangle Regional Public Transportation Authority. The City and Durham County appoint one member each and jointly appoint a third member. The Authority possesses final decision making ability and is solely responsible for the management, budget, and fiscal operations of the Authority.

### **ii. Triangle J Council of Governments**

The City of Durham along with thirty other municipalities and five counties, established the Triangle J Council of Governments. The participating governments, established the Triangle J Council of Governments to coordinate various funding received from federal and state agencies. Each participating member appoints one official to the governing board of the Triangle J Council of Governments. The City paid membership fees of \$56,399 to the Council during the fiscal year ending June 30, 2003.

## **D. Joint Venture**

### **Raleigh Durham Airport Authority**

The Raleigh Durham Airport Authority is a joint venture without equity interest, it is governed by an eight-member board, of which two members are appointed by the City of Durham. Wake and Durham Counties and the City of Raleigh each appoint two members. The City is not able to impose its will on appointed members. Each government contributes \$12,500 annually for administration of the Authority. The Authority possesses final decision-making ability and is solely responsible for the management, budget and fiscal operations of the Authority. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2002. Complete financial statements of the Authority may be obtained from the Authority's administrative offices at RDU Airport, North Carolina 27623.

## **E. Related Organization**

### **Durham Housing Authority**

In accordance with the process outlined in the North Carolina General Statutes, as amended by local act, the City Council appoints members to the governing board of the Authority but is not able to impose its will on appointed members. Budgetary and financial management and fiscal operations of the Authority are totally the responsibility of the Authority. The City receives reports and makes recommendations as provided by State General Statute 157-27. The Authority has independent legislative and administrative authority.

## **F. Civic Center**

In a contractual agreement, The Durham Civic Center Authority was established by the City and County of Durham and is assigned such powers as necessary, reasonable and practicable for the operation and maintenance of the Civic Center facility. The Durham Civic Center Authority consists of seven members who are appointed to three-year terms. Three members are appointed by the City and three members by the County, with the seventh member selected by the six members appointed by the City and County. The members elect from its membership a Chairman and Vice Chairman. The Shaner Hotel Group has a contract with the Durham Civic Center Authority and manages the operation of the Civic Center for the City and the County. The City and the County share all operating costs and all operating revenues equally. All budgeting and accounting of the Durham Civic Center Authority, including the collection or disbursement of funds, are part of the budgeting and accounting systems of the City.

The City and County determined that the construction of a civic center would stimulate private investment in and rejuvenate the downtown area of the City. In October 1987, the City and County entered into agreements with a private developer to construct the Civic Center. The City and County initially deposited \$17,300,000, \$14,300,000 by the City and \$3,000,000 by the County, in an escrow account that together with interest was used to fund the purchase the facility. The County will continue to repay the City for their portion of the cost of construction with annual payments until the year 2006, at which time both the City and the County will each own 50% of the equity in the Civic Center. The current contract percentage of ownership by the County at June 30, 2003 is 45.8 %. The entire operation of the Civic Center is included in the Enterprise Funds section of this report. The County's current ownership in the civic center is presented as the minority interest in the Civic Center Fund.

## **G. Post-Retirement Benefits**

### **i. Health Benefits**

In addition to providing pension benefits, the City has elected to provide post-retirement health benefits to retirees of the City who elect to continue group health insurance until age 65. Eligibility for post retirement health insurance is limited to retirees who have not reached the age of 65 and have been a member of the group health plan for 90 days prior to the retirement date. The City currently provides a subsidy of 70% of the premium charged by the provider for retiree and eligible dependent health insurance. For disabled retirees, the City pays 100% of the premium for individual coverage for the 12 months following retirement, and supplements dependent coverage at retiree group rates. The disabled retiree has the option after the 12 month period to continue group health insurance until age 65 under the then current group retiree plan. Currently 379 retirees are participating in the plan. For the year ended June 30, 2003, the City remitted to providers approximately \$1,150,921 for health insurance premiums for retirees. The City also reimburses retired employees over 65 for health insurance acquired to supplement Medicare. At June 30, 2003 there were approximately 186 employees who were receiving reimbursements. The total reimbursements paid by the City for the fiscal year was \$ 210,855.

### **ii. Death Benefits**

For pre-1972 retirees, the City elected to provide them death benefits through a group life insurance carrier. Currently, 3 retirees have coverage equal to their annual salary at the time of retirement rounded to the nearest thousand dollars. The City paid \$441 in premiums for this coverage. For all post-1972 disabled retirees, the coverage is equal to their annual salary at the time of retirement rounded to the nearest thousand dollars. Presently, 16 post-1972 retirees are covered by this benefit. The City paid \$1,261 for the year ended June 30, 2003 in premiums for this coverage.

### **iii. Death Trust Plan**

The City has elected to provide death benefits to law enforcement officers through the Death Trust Plan for Members of the Local Governmental Employee's Retirement System (Death Trust Plan), a State administered plan funded on a one year-term basis. Lump sum death benefits are provided to officers 1) who die in active service after one year of contributing membership in the System, or 2) who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death. This payment is equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$20,000. Annually, the State sets the City's monthly contribution rate for death benefits. For the fiscal year ended June 30, 2003, the City made contributions to the state for death benefits of \$26,368 for law enforcement officers representing 0.14% of covered payroll.



## H. Employee Retirement Systems

### i. The North Carolina Local Government Employees' Retirement System

*Plan description.* All permanent full-time City of Durham employees contribute to the state wide Local Government Employees' Retirement System (LERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. The LERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LERS. That report may be obtained by writing to the office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding policy.* Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate for employees not engaged in law enforcement and for law enforcement officers is 4.8% and 4.78%, respectively, of annual covered payroll. The contribution requirements are established and may be amended by the North Carolina General Assembly. The City's contribution to LERS for the years ended June 30, 2003, 2002, and 2001 were \$3,717,552, \$3,495,481, and \$3,330,598, respectively. The contributions made by the City equaled the required contributions for each year.

### ii. Law Enforcement Officers' Special Separation Allowance

The City of Durham administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined pension benefit plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The separation allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The plan does not issue a standalone financial report and is not included in the report of a public retirement system or other entity.

The Separation Allowance covers all full-time law enforcement officers of the City. At December 31, 2001, the System's membership consisted of:

|  |            |
|--|------------|
| Retirees and beneficiaries currently receiving benefits            | 46         |
| Terminated plan members entitled to but not yet receiving benefits | 0          |
| Active plan members  | 425        |
| Total  | <u>471</u> |

### Summary of significant accounting policies

*Basis of accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method used to value investments.* Investments are reported at cost, which approximates fair value. Short-term debt, deposits, repurchase agreements, and North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at cost, which also approximates fair value.

*Contributions.* The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$667,451 or 3.58% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The annual required contribution for the fiscal year ended June 30, 2003 was determined as part of the December 31, 2001 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return and (b) projected salary increases ranging from 5.9% to 9.8% per year. The inflation component was 3.75%. The assumptions did not include post retirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2001 was 29 years.

*Annual pension cost and net pension obligation.* The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

|   |                |
|---|----------------|
| Annual required contribution                  | \$ 635,901     |
| Interest on net pension obligation            | (84,021)       |
| Adjustment to annual required contribution    | 62,255         |
| Annual pension obligation                     | 614,135        |
| Contributions made                            | 687,451        |
| Increase (decrease) in net pension obligation | (73,316)       |
| Net pension obligation beginning of year      | (1,158,913)    |
| Net pension obligation end of year            | \$ (1,232,229) |

| 3 Year Trend Information |                              |                                  |                           |
|--------------------------|------------------------------|----------------------------------|---------------------------|
| Fiscal<br>Year Ended     | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed | Net Pension<br>Obligation |
| 6/30/2001                | 459,428                      | 119.22%                          | (1,044,837)               |
| 6/30/2002                | 554,713                      | 120.56%                          | (1,158,913)               |
| 6/30/2003                | 614,135                      | 111.94%                          | (1,232,229)               |

### iii. Supplemental retirement income plan of North Carolina

*Plan description.* The City contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all law enforcement officers and any other employees who are currently members of a state-administered retirement plan and are eligible to participate in the Plan. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend the benefit provisions to the North Carolina General Assembly.

*Funding policy.* Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Employees may also make voluntary contributions to the plan. The City also contributes 5% of its full-time non-law enforcement employees' salaries to the plan. Contributions for the year ending June 30,

2003 were \$959,253 for law enforcement officers and \$2,248,676 for non-law enforcement employees. Voluntary contributions from all employees were \$1,832,643.

#### **iv. Deferred Compensation**

All permanent City employees and elected officials may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. Voluntary contributions from all employees were \$769,211.

The City contributes to the deferred compensation plan for firefighters who do not have social security taxes deducted from their wages. The amount contributed is a match to the employee's contribution; the employee must contribute the required percentage to receive a City match. For fiscal year 2002-2003 the required percentage was 5%. The amount contributed by the City was \$502,112, which is for wages amounting to \$10,102,240.

#### **I. Closure and Post Closure Care Costs**

The City owns a landfill site located in the northeast portion of the City. State and federal laws required the City to place a final cover on its Club Boulevard landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each June 30. The \$7,553,308 reported as landfill closure and postclosure care liability at June 30, 2003 is based on the use of 100% of the estimated capacity of the landfill.

The City closed the landfill December 31, 1997. The City will adjust the estimated amount to perform all closure and postclosure care as the amount changes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. At June 30, 2003, the City had expended \$6,907,073 in closure costs for the Club Boulevard facility. The City has met the requirements of a local government financial test that is an option under state and federal laws and regulations that help determine if a unit is financially able to meet closure and post closure care requirements.

#### **J. Federal and State Assisted Programs**

The City has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant money.

#### **K. Reclassifications**

Certain amounts in the prior year statements have been reclassified to conform to current year classifications.

#### **L. Contingencies**

The City is involved in several pending lawsuits and claims, which it intends to defend vigorously. In the opinion of the City's attorney and management, the disposition of these matters is not expected to have a material effect on the City's financial position.